

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6860

BILL NUMBER: HB 1262

DATE PREPARED: Jan 13, 2002

BILL AMENDED:

SUBJECT: Levy Freeze and Fiscal Home Rule.

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill freezes county, city, and town property tax levies at 2002 levels and provides that property taxes for bonded indebtedness are exempt from the levy freeze. The bill provides for property tax replacement in allocation areas. It also limits the petition and remonstrance procedure to contest public construction projects to school construction projects.

This bill authorizes tax rates exceeding statutory limits for CAGIT, COIT, and CEDIT if the increases are approved in a referendum. It extends home rule for counties, cities, and towns to taxation and authorizes fee increases that exceed program costs. The bill repeals statutes applying only to counties, cities, or towns within the civil government property tax control law.

Effective Date: July 1, 2002.

Explanation of State Expenditures: *Maximum Levies:* The growth limitation of county and municipal property tax levies could reduce the state's obligation for property tax replacement and homestead credits. State savings could amount to as much as \$7.5 M in FY 2003, \$20.9 M in FY 2004, and \$34.0 M in FY 2005. PTRC and homestead credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any savings of PTRC and homestead credit expenditures would ultimately benefit the state General Fund.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *Maximum Levies:* Under current law, civil taxing unit maximum levies grow at the rate of assessed value growth with a minimum of 5% and a maximum of 10%. Under this bill, the 2003 maximum non-debt levy for counties, cities, and towns would be equal to the 2002 non-debt levy.

There would be no automatic growth in the maximum levy. The taxing unit would, however, be permitted to hold a referendum of the registered voters on the question of raising the maximum levy for a year.

County and municipal non-debt levies totaled \$1,974.2 M in CY 2001 and have grown at an average of 4.1% per year from CY 1996 to CY 2001. Assuming that the levies will continue to grow at their historical rate absent this bill, this bill would cause counties and municipalities to forego levy growth estimated at \$61 M in CY 2003, \$124 M in CY 2004, and \$188 M in CY 2005 if no referendums are passed. The actual amount of levy reduction (or forgone growth) depends on the actions of counties and municipalities under current law and whether any referendums would be passed under the proposal. Counties and municipalities would also have to seek approval from the Department of Local Government Finance in order to incur debt or execute a lease under the proposal.

This proposal would allow a local governing body to impose a special assessment on TIF property if the levy limitations in this proposal adversely affect the ability to generate sufficient funds in the TIF area to meet obligations.

Controlled Projects: Under current law, a project that includes the issuance of public debt of \$2 M or more by a local governmental unit or school corporation is a controlled project and is subject to the petition and remonstrance procedure. Under this proposal, non-school projects would no longer be subject to the petition and remonstrance procedure. Property owners would no longer be able to stop a project to which they object through this procedure, possibly affecting construction spending.

Local Option Income Tax: Under current law, the County Adjusted Gross Income Tax (CAGIT) rate and the County Option Income Tax (COIT) rate are both capped at 1%. The County Economic Development Income Tax (CEDIT) is capped at 0.5%. The maximum CAGIT/CEDIT combination rate is 1.25%, and the maximum COIT/CEDIT combination rate is 1.00%.

This bill would allow counties to hold a referendum of county registered voters on the question of raising the maximum local option rate above the statutory maximum. The actual fiscal impact would depend on local action. A portion of CAGIT proceeds are used for local property tax replacement, and the rest is distributed to all local taxing units except schools. Some COIT money can be used to pay for local homestead credits, and the remainder is distributed to non-school taxing units. CEDIT monies are distributed to counties, cities, and towns.

Home Rule: Under current law, counties, municipalities, and townships may not impose fees and service charges that would exceed a reasonable charge for service received. This bill would remove the limitation. Current law also prohibits counties, municipalities, and townships from imposing a tax, except as provided by statute. This limitation would also be removed by the bill. The fiscal impact would depend on the amounts by which local fees and service charges are increased and if any local unit imposes a new local tax not covered by statute.

State Agencies Affected: Department of Local Government Finance (State Tax Board); Department of Revenue; State Budget Agency.

Local Agencies Affected: All local civil units and school corporations.

Information Sources: Local Government Database.